

## THE EFFECT OF GOOD CORPORATE GOVERNANCE AND LIQUIDITY MECHANISMS ON FINANCIAL PERFORMANCE (EMPIRICAL STUDY ON PROPERTY AND REAL ESTATE SUB-SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE 2019-2022 PERIOD)

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### Abstract:

This study examines the effect of Good Corporate Governance and liquidity mechanisms on financial performance in property and real estate sub-sector companies listed on the Indonesia Stock Exchange. Good corporate governance in this study is proxied with independent commissioners, audit committees, and institutional ownership. Liquidity is proxied by the current ratio. Financial performance is proxied by returns on assets (ROA). This study analyzes the influence of independent commissioners, audit committees, institutional ownership and current ratios on financial performance. The formulation of the problem in this study is whether independent commissioners, audit committees, institutional ownership and current ratios affect financial performance. The methods used in this study are descriptive methods and explanatory causal methods with a quantitative approach. The results of this study show that independent commissioners and institutional ownership do not affect financial performance. At the same time, the audit committee and current ratio negatively and significantly affect financial performance.

**Keywords:** ROA, Independent Commissioner, Audit Committee, Institutional Ownership, Current Ratio

## INTRODUCTION

In the face of an increasingly competitive business world in the era of globalization, an information system is needed to provide an accurate picture of financial performance. The company's financial performance can be used as a benchmark to assess whether the company is in excellent or imperfect condition. Information on financial statements can be used as a reference for company stakeholders such as investors, criteria, and the government to assess the company's past performance and potential risks in the future. Good financial performance will powerfully attract investors to invest, and creditors will not hesitate to provide loans to the company.

Property and real estate sub-sector companies are considered to contribute to national economic growth. Reporting from the property industry, it is increasingly transforming into one of the focal sectors for the national economy, contributing to the multiplier effect of supporting industrial sub-sectors. The critical role of the property and real estate sub-sector can be seen from the contribution to gross domestic product in Q2-2022, which reached 2.47% for real estate. In addition, growth was also shown by the property sector in Q2-2022, with achievements exceeding pre-COVID-19 pandemic levels of 2.16% (yoy) for real estate and 1.02% (yoy) for construction. The growth figure was supported by an increase in the commercial property demand index in Q2-2022, which was 1.58% (yoy). The real estate sector experienced positive sales growth of 15.23% (yoy) in Q2. Regarding financial performance, ten property issuers have reported financial performance, namely Sentul City (BKSL), Bumi Serpong Damai (BDSE), Ciputra Development (CTRA), Jababeka



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Industrial Estate (KIJA), Lippo Cikarang (LPCK), Lippo Karawaci (LPKR), Plaza Indonesia Realty (PLIN), PP Property (PPRO), Summarecon Agung (SMRA) and Surya Semesta Intenuse (SSIA). Of the ten issuers, it is estimated that total aggregate revenue was recorded to increase 7.07% from the same period the previous year. However, the total revenue is still less than a quarter of last year's or 23.47% (emitennews.com, 2022; CNCB Indonesia Feri Sandria, 2022).

The corporation must take the necessary steps to develop excellent corporate governance in order to preserve revenue stability and financial performance. Good corporate governance is the principles that underlie a company's management process and method based on laws and regulations and business ethics. Five principles of corporate governance, including transparency, accountability, independence, and fairness, can be applied in good company management.

In this study, the GCG mechanism is proxied by independent commissioners, audit committees, institutional ownership, and liquidity ratios proxied by current ratios. The liquidity ratio is an indicator of the company's financial condition and shows the company's ability to finance operations, pay debts and meet the company's short-term obligations. An independent commissioner is a member of the board of commissioners who needs to have financial, management, shareholding, and controlling shareholder relationships with a company that may hinder or hinder its position to act independently following GCG principles. The appointment of independent commissioners is regulated in OJK regulation Number 33/POJK.04/2014 concerning directors and board of commissioners of issuers or public companies or Indonesian stock exchange regulations in Bapepam-LK regulation number IX.I.5 and Indonesia Stock Exchange Number IA Kep-305/JSX/07-2004. The audit committee is the company's internal supervisor who can optimize checks and balances, which can be demonstrated to provide optimal protection to shareholders and stakeholders. The main task of the audit committee is to assist the board of commissioners in carrying out supervisory functions, including the company's internal control, the quality of financial statements, and the effectiveness of the internal audit function. Institutional ownership is one tool that can be used to reduce agency conflict. Through a large proportion of institutional ownership, owners can encourage management to apply conservatory accounting principles to avoid management's opportunist actions to manipulate company performance. A more significant proportion of institutional ownership can increase oversight, thereby improving financial performance (Zatira et al., 2022; OJK, 2019; Indonesian Audit Committee Association, 2023).

This study proxies financial performance by returns on assets (ROA). ROA is a ratio that measures the ability of company management to earn profits. ROA can show you how much profit a company can generate using all its assets. The higher the ROA value, the higher the company can generate profits.

The research concluded that the proportion of independent boards of commissioners has a negative and significant effect on financial performance. The audit committee has a positive and insignificant effect on financial performance. Research from the Audit Committee and institutional ownership does not affect financial performance. The study concluded that independent commissioners, institutional ownership and liquidity ratios simultaneously contribute to financial stress (Suparno et al., 2020; Nuri et al., 2021; Khairuddin et al., 2019).

Thus, the implementation of corporate governance needs to be improved because good corporate governance can improve the company's financial performance.

Based on the description above, this research was titled "The Effect of Good Corporate Governance and Liquidity Mechanisms on Financial Performance (Empirical Study on Property and Real Estate Sub-Sector Companies Listed on the Indonesia Stock Exchange for the 2019-2022 Period)".



Based on the background of the problem described, this study formulates the following problem: Does the independent commissioner, audit committee, institutional ownership and current ratio affect financial performance?

Based on the background and problem formulation, this study analyzes the influence of independent commissioners, audit committees, institutional ownership and current ratios on financial performance.

## METHODS

The data analysis methods used are descriptive and explanatory causal with a quantitative approach. The population in this study is property and real estate sub-sector companies listed on the Indonesia Stock Exchange for the 2019-2022 period. This study used four independent variables: independent commissioner, audit committee, institutional ownership, and current ratio. Moreover, one dependent variable is financial performance. This study measures independent commissioners by (the number of independent commissioner meetings). The audit committee is measured by (the number of audit committee meetings). Institutional ownership is measured by (number of shares owned by the institution ÷ number of outstanding shares x 100%). The current ratio is measured by (current asset ÷ current liabilities x 100%).

Moreover, financial performance or ROA is measured by (net income ÷ total assets x 100%). The method of data analysis in research is the multiple linear regression method. The data analysis techniques used in this study are descriptive statistics, classical assumption testing, and hypothesis testing. Descriptive statistics provide an overview of data from the average, maximum, minimum, and standard deviation values. The classical assumption test in this study is divided into 4, namely (Ghozali, 2018).

1. Test for normality. The normality test used in this study uses Kolmogorov-Smirnov statistic analysis with a significant number testing > 0.05, followed by the average distribution data. The data is not generally distributed if the significance number is < 0.05 (Ghozali, 2018).
2. Multicollinearity Test. The heteroscedasticity test can be known through tolerance (T) and variance inflation factor (VIF) produced by independent variables. Multicollinearity occurs if the tolerance value is less than 0.1, meaning there is no correlation between independent variables greater than 95%. Moreover, the value of VIF is more than 10. If the value of VIF is less than 10, then the independent variable used in the model is reliable and objective (Ghozali, 2018).
3. According to heteroscedasticity testing, the heteroscedasticity test aims to find out whether, in the regression model, there is an inequality of residual variance from one observation to another observation that is still fed, called heteroscedasticity. A regression model is said to have no heteroscedasticity if the significance probability is above the confidence level of 5% or > 0.05 and vice versa. Heteroscedasticity was tested in this study using the glacier test (Ghozali, 2018).
4. The autocorrelation test aims to determine whether or not there is a confounding error in period t with a confounding error in the previous period t-1 in linear regression. If correlation occurs, then there is an autocorrelation problem. The autocorrelation test in this study used the Durbin-Watson test (Ghozali, 2018).

There are 4 hypothesis tests in this study, namely:

1. Test coefficient of determination (R<sup>2</sup>), Coefficient of determination (R<sup>2</sup>) is used to determine the contribution from the independent variable to the dependent variable. This coefficient of determination test measures how far the model can describe variations in the dependent variable. A small R<sup>2</sup> value means that the ability of independent variables to explain dependent variable variation is minimal. A value close to 1 means that the variation of the independent





variables provides the information needed to estimate the variation of the dependent variable. The coefficient of determination for cross-data (crosssection) is generally relatively small because of the significant variation between each observation. At the same time, time series data usually has a significant value of the coefficient of determination (Ghozali, 2018).

2. The simultaneous significant test (F), statistical testing F, tests whether all independent variables in the model influence the dependent variable simultaneously or together. The criterion in this test is the significance level  $\alpha=0.05$ . If the significance value is less than 0.05, the independent variable is the inflinfluencest. Moreover, vice versa, if the significance value is more significant than 0.05, then the independent variable simultaneously does not affect the dependent variable (Ghozali, 2018).
3. The individual parameter (T) significant test, according to Ghozali (2018), is the statistical test that essentially shows how much influence one individual explanatory/independent variable has in explaining the variation of the dependent variable. The basis for making the decision is: if the significant value is  $>0.05$ , then  $H_a$  is rejected, and if the significance value is  $<0.05$ , then  $H_a$  is accepted.
4. A multiple linear regression test is an equation that can explain the relationship of one dependent variable with two or more independent variables. Multiple linear regression tests aim to determine whether the independent variables can affect the dependent variable (Ghozali, 2018). The multiple linear equations used in this study are  $KK=a + \beta_1MKI + \beta_2MKA + \beta_3MKINST + \beta_4CR + e$ . (Description  $KK$ =Financial Performance,  $a$ =Constant,  $\beta_1$ - $\beta_4$ =Regression of each variable,  $MKI$ =Independent Commissioner Mechanism,  $MKA$ =Audit Committee Mechanism,  $MKINST$ =Institutional Ownership Mechanism,  $CR$ =Current Ratio,  $e$ =error Term.

This study's data analysis tool is SPSS software version 29. The sampling technique in this study is a purposive sampling method with criteria set by researchers: 1) Property and real estate sub-sector companies listed on the Indonesia Stock Exchange, and their shares were active in 2019-2022. 2) Property and real estate sub-sector companies that did not suffer losses during the study period. 3) Property and real estate sub-sector companies that did not issue IPOs during the study period. 4) Property and real estate sub-sector companies with complete data.

Table 1. Sample Criteria		
No	Sample Criteria	Entire
1.	A property and real estate sector company listed on the Indonesia Stock Exchange, its shares were active from 2019 to 2022.	84
2.	Property and real estate sub-sector companies that suffered losses during the 2019-2022 research period.	(40)
3.	Property and real estate sub-sector companies that issued IPOs during the 2019-2022 research period.	(23)
4.	Property and real estate sub-sector companies need more data.	(4)
	Number of samples of property and real estate sub-sector companies	16
	Number of samples of property and real estate sub-sector companies in 4 years / during 2019-2022	$16 \times 4 = 64$

The hypotheses in this study are:

- H1: Independent Commissioner affects financial performance.  
H2: Audit Committee affects financial performance.  
H3: Institutional ownership affects financial performance.  
H4: Current ratio affects financial performance.



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## RESULT AND DISCUSSION

Descriptive statistical analysis in Table 2 shows the results of the study with the amount of data for each variable 44 after eliminating outlier data of property and real estate sub-sector companies, namely: Independent Commissioner (X1) has a minimum value of 0.00; maximum value 15; mean 7; with a standard deviation of 2.89346. The Audit Committee (X2) proportion has a minimum value of 0.00, a maximum value of 17, an average score of 5.2500, and a standard deviation of 3.27162. Institutional Ownership Proportion (X3) has a minimum value of 0.10, maximum value of 1, and average value of 0.7009, with a standard deviation of 0.19970. The proportion of the Current Ratio (X4) has a minimum value of 0.93, a maximum value of 12.29, an average score of 2.9602, and a standard deviation of 2.52753. The proportion of Financial Performance (Y) has a minimum value of 0.00, a maximum value of 0.9, and an average value of 0.0380, with a standard deviation of 0.02417.

**Table 2.** Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Constanta (C)	5.56 E-16	0.052493	2.23E-14	7	2.89346
KI (X1)	44	0.00	15.00	5.2500	3.27162
KA (X2)	44	0.00	17.00	0.7009	.19970
KINST (X3)	44	0.10	1.00	2.9602	2.52753
CR (X4)	44	0.93	12.29	0.0380	0.02417
ROA	44	0.00	0.09		

Source: Data Processed 2023

Based on the Kolmogorov-Smirnov normality test results in Table 3, it is known as follows: a significance value of 0.200 is more significant than 0.05 ( $>0.05$ ), meaning the data is usually distributed.

**Table 3.** Normality Test

Information	Unstandardized residual	Conclusion
Asymp. Sig. (2-tailed) <sup>c</sup>	0.200s	Normally distributed

Source: Data Processed 2023

Based on the results of the multicollinearity test in Table 4, it is known as follows: The independent variable does not have a tolerance value of less than 0.10 ( $< 0.10$ ). The result of calculating the value of VIF is more than 10 ( $> 10$ ), so it can be concluded that the independent variable does not occur with the multicollinearity assumption.

**Table 4.** Multicollinearity Test

Variable	Collinearity Statistic		Information
	Tolerance	VIF	
Constanta (C)			



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KI (X1)	0.335	2.986	No multicollinearity occurs
KA (X2)	0.327	3.063	No multicollinearity occurs
KINST (X3)	0.814	1.229	No multicollinearity occurs
CR (X4)	0.702	1.425	No multicollinearity occurs

Source: Data Processed 2023

The results of the heteroscedasticity test in Table 5 indicate that none of the independent variables in this study had heteroscedasticity.

**Table 5. Heteroscedasticity Test**

Variable	t	Sig.
Constanta (C)	1.172	0.248
KI (X1)	0.439	0.663
KA (X2)	-1.046	0.302
KINST (X3)	1.208	0.234
CR (X4)	-0.660	0.513

Source: Data Processed 2023

The autocorrelation test results in Table 5 show DW = 2.017, dU = 1.7200, dL = 1.3268 and 4-dU = (4-1.7200 = 2.28), so it can be concluded that there is no autocorrelation.

Based on Table 6, the results of the R2 coefficient of the determination test show that the contribution of the influence of independent variables, amounting to 0.301 or 30.1% variation in financial performance, can be interpreted by independent commissioners, audit committees, institutional ownership and current ratios, while other variables outside this model influence the rest.

**Table 6. Autocorrelation test by performing Cochrane-Orcutt**

Type	R	R Square	Adjusted R Square	Std. Error Of The Estimate	Durbin Watson
1	0.549a	0.301	0.228	0,02018	2.017

Source: Data Processed 2023

The results of the F statistical test in Table 7 show that the probability of the F value is 0.000. Since sig 0.007 < 0.05, it can be concluded that, simultaneously, all independent variables have a significant effect on the dependent variable.

**Table 7. Statistical Test F**

Type	Sum of Squares	Df	Mean Square	F	Sig.
Regression	0.007	4	0.002	4.096	0.007b
Residuals	0.015	38	0.000		
Total	0.022	42			

Source: Data Processed 2023



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Based on the results of the statistical test T in Table 8, each independent variable can be concluded as follows: independent commissioner mechanism t count of 1.885 with a significant value of 0.067, > 0.05. It means that the independent commissioner's mechanism does not affect financial performance. The audit committee mechanism has a calculated t value of -2.927 with a significant value of 0.006, < 0.05. It means that the audit committee mechanism negatively and significantly affects financial performance. The institutional ownership mechanism has a calculated t-value of 0.601 with a significant value of 0.551, > 0.05. It means that institutional ownership mechanisms do not affect financial performance. The current ratio has a calculated t value of -2.654 with a significant value of 0.012, < 0.05. It means that the current ratio negatively and significantly affects financial performance.

Based on Table 8, multiple linear regression test results are obtained as follows:  $KK=a + \beta_1MKI + \beta_2MKA + \beta_3MKINST + \beta_4CR + e$ . ( $K = 0.38 + 0.004MKI + (-0.005MKA) + 0.011MKINST + (-0.004CR) + e$ ). The constant value in this study was  $a=0.38$ . This means that if the KI, KA, KINST, and CR indices are 0, then financial performance shows a value of 0.038; The coefficient  $\beta_1$ , the independent commissioner mechanism of 0.004 explains that for every increase in the independent commissioner by 1 point, the financial performance (ROA) increases by 0.004 points; Coefficient  $\beta_2$ , the mechanism of the audit committee explains that the audit committee variable is -0.005, meaning that if the value of other independent variables is assumed to be fixed and the audit committee decreases by 1%, then financial performance will decrease by 0.005%; The coefficient  $\beta_3$ , an institutional ownership mechanism of 0.011, explains that for every increase in the value of institutional ownership by 1 point, financial performance will increase by 0.011 points; The coefficient  $\beta_4$ , Current ratio of -0.004, explains that if the value of other independent variables remains and the current ratio decreases by 1%, then financial performance will decrease by 0.004%.

**Table 8. Statistical Test T**

Type	Unstandardized Coefficients		Standardize d Coefficients	t	Sig.
	B	Std. Error	Beta		
Constanta (C)	0.038	0.016		2.423	0.020
KI (X1)	0.004	0.002	0.459	1.885	0.067
KA (X2)	-0.005	0.002	-0.722	-2.927	0.006
KINST (X3)	0.011	0.18	0.090	0.601	0.551
CR (X4)	-0.004	0.002	-0.427	-2.654	0.012

Source: Data Processed 2023

### CONCLUSION

This study examines the effect of good corporate governance and liquidity mechanisms on financial performance in property and real estate sub-sector companies listed on the Indonesia Stock Exchange in 2019-2022. The independent commissioner, audit committee, and institutional ownership variables are used to measure good corporate governance, and the current ratio is used as an independent variable to measure liquidity; return on assets (ROA) is used as a dependent variable to measure financial performance. Regression analysis shows that the independent commissioner variable does not affect financial performance, which shows that the number of



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independent commissioner meetings does not directly affect financial performance. The Audit Committee has a negative and significant effect on financial performance. It shows that the number of meetings and the results of decisions and policies of the Audit Committee affect financial performance; institutional ownership does not affect financial performance, and institutional ownership structure does not affect financial performance. The current ratio has a negative and significant effect on financial performance, which shows that the current ratio is related to the company's ability to meet its financial needs. The amount of liquid equipment that a company has at any given moment constitutes the paying power of the company.

This study recommends that company management pay attention to variables tied to financial performance, especially those that significantly influence it, to improve its financial performance.

The conclusion describes the answer to the hypothesis and research objectives or scientific findings obtained. The conclusion does not contain a repetition of results and discussion, without displaying research figures, but a summary of findings as expected in the objectives or hypotheses. If necessary, at the end of the conclusion, things that will be done related to the idea of further research can also be written.

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